

**Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Jiaozi Modern Urban Industrial Development Co., Ltd.**

HONG KONG, 15 June 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Chengdu Jiaozi Modern Urban Industrial Development Co., Ltd. (“CJMU” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jinniu District (“Jinniu government”) would provide strong support to CJMU if needed, in light of its indirect wholly ownership of CJMU, the strategic importance of CJMU as a major urban development and operation entity in Jinniu District (“Jinniu”), and the linkage between the Jinniu government and CJMU, including management appointment, supervision over CJMU’s strategic development, major investment and financing plans through its shareholder, strategic alignment and ongoing operational and financial support. In addition, the Jinniu government may face significant negative impact on its reputation and financing activities if CJMU encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that CJMU’s strategic importance would remain intact while the Jinniu government will continue to ensure CJMU’s stable operation.

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Jinniu government indirectly holds 100% ownership of CJMU through Chengdu Jinniu Urban Construction Investment and Operation Group Co., Ltd. (“JUCl”), one of the largest local investment and development companies in terms of asset size in Jinniu, which is fully owned by State-owned Assets Supervision, Administration and Finance Bureau of Jinniu (“Jinniu SASAFB”). The Jinniu government has strong supervision over CJMU, including management appointment and supervision of the strategic development, major investment and financing plans through JUCl. In addition, the local government has formulated a performance assessment mechanism for the company and regularly appoints auditors to review the company’s financial position.

**Strategic Importance to Jinniu and Strategic Alignment:** CJMU is the most important subsidiary of JUCl and a major development and operation entity responsible for project construction, including infrastructure, public facilities, resettlement houses, as well as bridges and roads in Jinniu. CJMU also develops and operates industrial parks in Jinniu to facilitate industry development in Jinniu, which is a key initiative of the Jinniu government. Its business operation has been aligned with the local government’s development plans.

**Ongoing Government Support:** CJMU has received ongoing support from JUCI and the Jinniu government, including capital and assets injection, operational subsidies, etc. In 2022, CJMU received a capital injection of RMB300 million in 2022, enlarging its paid-in capital to RMB500 million from RMB200 million. The company also received asset injections of RMB23.9 billion between 2020 and 2022. Injected assets mainly included state-owned enterprises' equity, state-owned properties, sand and gravel resources and construction projects, yet some were non-profit public assets. In addition, the Jinniu government provides subsidies of RMB116 million in 2021 and 2022, respectively, through JUCI to support CJMU's operations. We expect CJMU to receive strong support from the JUCI and the local government in light of its strategic importance.

**Economy and Fiscal Strength of Jinniu:** Jinniu's leading industry included rail transit equipment, electronic information, medicine and health. Its GDP reached RMB149.9 billion in 2022, ranking 3<sup>rd</sup> among 20 districts and counties under the administration of Chengdu. However, its GDP growth rate slowed significantly from 7.2% in 2021 to 0.6% in 2022 due to Covid's disruption. Jinniu's budgetary revenue growth also slowed to 1.6% in 2022, compared with 9.9% in the previous year. The fiscal self-sufficiency rate of the Jinniu government remained stable, with a fiscal surplus of 6.7% in 2022.

The debt ratio (i.e., total government debt divided by aggregate revenue) of the Jinniu government increased slightly in 2022 but remained at a manageable level of 30.6%. By end-2022, the outstanding amount of government debt rose to RMB4.7 billion from RMB4.2 billion at end-2021, mainly due to the new issuance of special debts to support project development in Jinniu.

**CJMU's Financial Matrix and Liquidity Position:** CJMU's total asset showed a strong growth trend in the past three years. With the multiple asset injections, CJMU's equity base was enlarged to RMB24.5 billion at end-2022 from RMB1.1 billion at end-2020. Nevertheless, CJMU's total debt increased rapidly to RMB11.3 from RMB4.5 billion over the same period, representing a compound annual growth rate of 58.3%. Despite the decreasing financial leverage, as measured by total debt/capitalization, which was 31.5% at end-2022, down from 79.7% at end-2020, the company's debt burden remained high, given that injected assets could lack liquidity and face a long monetization period, especially for construction projects.

CJMU's liquidity was moderately tight. At end-2022, the company had a cash balance of RMB523 million, compared with its short-term debt of RMB1.7 billion. Its financing channel was limited, merely relying on bank borrowings and non-traditional financings, with unused credit lines of RMB1.4 billion at end-2022.

## Rating Sensitivities

We would consider downgrading CJMU's rating if (1) there is perceived weakening in support from the Jinniu government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Jinniu government's ownership of CJMU, or (3) there is a downgrade in our internal credit assessment on the Jinniu government.

We would consider upgrading CJMU's rating if (1) there is strengthened support from the Jinniu government, or (2) there is an upgrade in our internal credit assessment on the Jinniu government.

### **About Lianhe Global**

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

### **Rating Methodology**

The principal methodology used in this CJMU's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website [www.lhratingsglobal.com](http://www.lhratingsglobal.com).

**Note:** The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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